The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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On The Horizon . . .

Just as it was beginning to appear almost certain that the recession would persist well beyond midyear, signs have been spotted which suggest that the economy has bottomed and that a recovery is on the way. To be sure, there was another slide in the index of leading economic indicators in March. However, this is not necessarily inconsistent with an imminent recovery because, in marked contrast with its ability to give plenty of warning regarding the onset of a recession, the composite index of leading indicators has lately provided little advance notice that business upturns are on the horizon. The time elapsed between rebounds in the leading indicators index and business activity has shortened considerably in recent years, limiting the usefulness of the overall index—but at the same time, enhancing the importance of trends in its components.

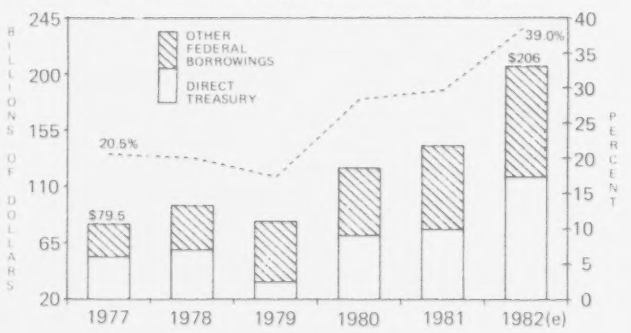
According to the Commerce Department, the index of leading economic indicators declined by 0.5 per cent in March, following an equal-sized drop in February and a 1.2 per cent decline in January. This marked the eleventh month in a row in which the index has fallen—one month short of the record twelve consecutive monthly declines posted during the 1973-75 recession. But while pointing toward soggy business conditions in the near term, this latest drop should not be overemphasized.

While it is true that this index has always turned up prior to the onset of recovery, it is also a fact that in recent years trends in the leading indicators index during recoveries have more closely coincided with economic activity, rather than preceded it. Whereas the average length of time elapsed between the initial upturn in the leading indicators composite and the economy was more than three months in the seven postwar recoveries, this average masks widely divergent and shifting patterns. Prior to the 1960s, the average advance notice time was not far from a half year; during the last two recessions (in 1973-75 and 1980), the elapsed time between a rise in the leading indicators and the onset of a recovery dropped to about one month.

. . . Are Glimmers Of Hope . . .

Nor is this the only reason why the March drop in the index may not be such bad news after all. With trends in the overall index now providing only the shortest possible indication of recovery, changes in the components of the index have assumed added importance. To be sure, six of the ten available indicators contributed to the overall decline in March, seemingly grim news when compared with the fact that only five indicators declined the month before. These included an upswing in initial claims for unemployment insurance and declines in the average workweek and crude materials prices—labor market and price indicators which appear to parallel, rather than lead, the pace of economic activity. More important were the ones that rose: New (constant dollar) orders for both consumer and capital goods, building permits and the inflation-adjusted, broader money supply, M2, all went up in March compared with February.

TOTAL FEDERAL AND FEDERAL-RELATED BORROWINGS (BAR) VS. BORROWINGS AS % OF TOTAL FUNDS RAISED (DOT)



Individually, increases in these four indicators have tended to precede both advances in the overall index and the economy. In the case of the latter, the lead time is about three months, or twice the length of time an upturn in the overall index has, in recent years, preceded recovery. With the exception of new

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orders for plant and equipment, these components of the index began to turn up this past January or February. Furthermore, the simultaneous advance of these four indicators that occurred in March may be even more significant. During the past 20 years, such an event has either coincided with the trough of the business cycle or preceded it by not more than 60 days.

. . . And Despair

While there has been little doubt that a business recovery would eventually get under way, there remains significant concern as to its staying power. The combination of large budget deficits and monetary policy restraint appears to be incompatible with a robust private sector recovery. In an era of unhinged short-term interest rates and volatile bond markets, the collision of massive Federal government credit demands and hefty private credit needs will threaten to push interest rates even higher than their current lofty heights—thus short-circuiting the nascent recovery.

Unfortunately, developments in Washington in recent days have done little to derail prospects that this bleak outlook will soon become reality. The failure of the Administration and Congress to hammer out a bipartisan budget compromise for fiscal year 1983 and beyond raises the distinct possibility that the budget deficit may soon spin out

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/28/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	137.428	– 1.125	+ 8.915
Loans to Depository Inst.	1.822	+ .163	– .456
Float	1.949	– .419	– 1.340
Total Reserve Bank Credit	150.761	– 1.370	+ 6.086
Treasury Deposits with Federal Reserve Banks	4.788	+ .530	+ 1.252
Currency Outside Banks	127.650	– 1.811	+ 6.550
Member Bank Reserves:			
Required	40.111	– .139	– .988
Excess (Deficiency)	.233	+ .081	+ .103
Total Reserves Held	40.344	– .058	– .885
Net Borrowed Reserves	1.412	+ .064	– .561
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	90.775	– .392	–10.950

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	449.5	+ 3.7‡	+ 4.6‡
M2 (March '82)	1,864.7	+ 9.3	+ 9.6
M3 (March '82)	2,235.4	+ 8.7	+ 10.5
L (December '81)	2,643.3	+ 10.3	+ 11.5

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 5/7/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	12.20%	12.25%	12.00%
* Federal Agencies	13.15	13.40	13.90
* Project Notes–Taxfree (46% Taxable Equivalent)	13.52	13.80	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	13.65	13.50	14.50

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	14.50%	Jun.	13.90%
15- 29 days	14.25	Jul.	13.50
30- 59 days	13.63	Aug.	13.10
60- 89 days	13.25	Sep.	13.00
90-179 days	12.75	Oct.	12.95
180-239 days	12.75	Nov.	12.60
240-270 days	12.75		

‡Industrial Paper–Prime			
30- 89 days	13.88%	†Federal Funds Effective Rate	14.90%
90-120 days	13.50		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'82	$ 2,995	$ 2,998	$ 2,853
Gross National Product (1972 Dollars)*	1st Q'82	$ 1,484	$ 1,498	$ 1,516
Percent Change, Annual Rate	1st Q'82	– 3.9	– 4.5	8.6
Change in Consumer Prices (all urban consumers)*	Mar '82	– 3.6%	2.4%	7.2%
Change in Producer Prices*	Mar '82	– 1.2%	– 1.2%	13.2%
Civilian Employment (Thousands of Persons)†	Apr '82n	99,340	99,492	100,878
Unemployment as % of Civilian Labor Force†	Apr '82n	9.4%	9.0%	7.3%
Personal Income*	Mar '82	$ 2,525	$ 2,514	$ 2,340
Leading Indicators Composite Index (1967=100)†	Mar '82	124.4	125.0	135.8
Industrial Production Index (1967=100) †	Mar '82	141.2	142.3	152.1
Net Change in Consumer Installment Credit†	Feb '82	$ 0.08	$ 0.44	$ 1.85
U.S. Merchandise Trade Balance †	Mar '82	–$ 2.64	–$ 1.20	–$ 0.71
Plant and Equipment Expenditures*	2nd Q'82	$336.77(a)	$345.46(a)	$316.73
Private Housing Starts (Thousands of Units)*	Mar '82	947	924	1,318
New Construction Expenditures*	Mar '82n	$ 231.2	$ 233.0	$ 250.3
Total Business Inventories†	Feb '82	$ 509.0	$ 511.1	$ 484.1
Total Business Sales†	Feb '82	$ 344.0	$ 336.7	$ 350.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

of control, averaging some $200 billion annually during the fiscal 1983-85 period. Deficits of this size would imply total Federal and Federal-related borrowings (including the activities of Federally-sponsored agencies and Federal loan guarantees) of almost $300 billion in fiscal 1983 alone.

What this means is that the financial markets will soon be wrestling with a deluge of new Treasury issues. This will intensify credit competition among all other borrowers, "crowding out" some while accommodating others—but at sky-high cost. Already, Treasury borrowing requirements are in the process of leaping upward, despite a fiscal year-to-date budget deficit which, so far, is well below initial expectations. With the Treasury expected to raise about $15½ billion in net new cash in the current quarter (compared with a net pay-down of Federal debt in second-quarter, 1981) and as much as $50 billion in the third quarter (more than twice year-ago levels), total Federal and related borrowings will probably exceed $200 billion for the calendar year as a whole. As shown in the chart on the first page, if these numbers hold up, such borrowings would account for just about 40 per cent of total funds raised in 1982, a new record, absorbing over 90 per cent of net national savings. (See MHT's Economic Report for April, 1982.) M

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (4/21/82)	132,176	+ 1,081	+20,878
New York City (4/21/82)	33,627	+ 578	+ 5,326
Commercial Paper (4/21/82)	171,468	+ 2,905	+36,029

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/21/82)	204,584	+ 901	+31,945
New York City (4/21/82)	57,368	+ 420	+ 6,727

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/21/82)	479,065	+ 1,097	+51,352
New York City (4/21/82)	110,978	– 736	+10,397

Financial Markets

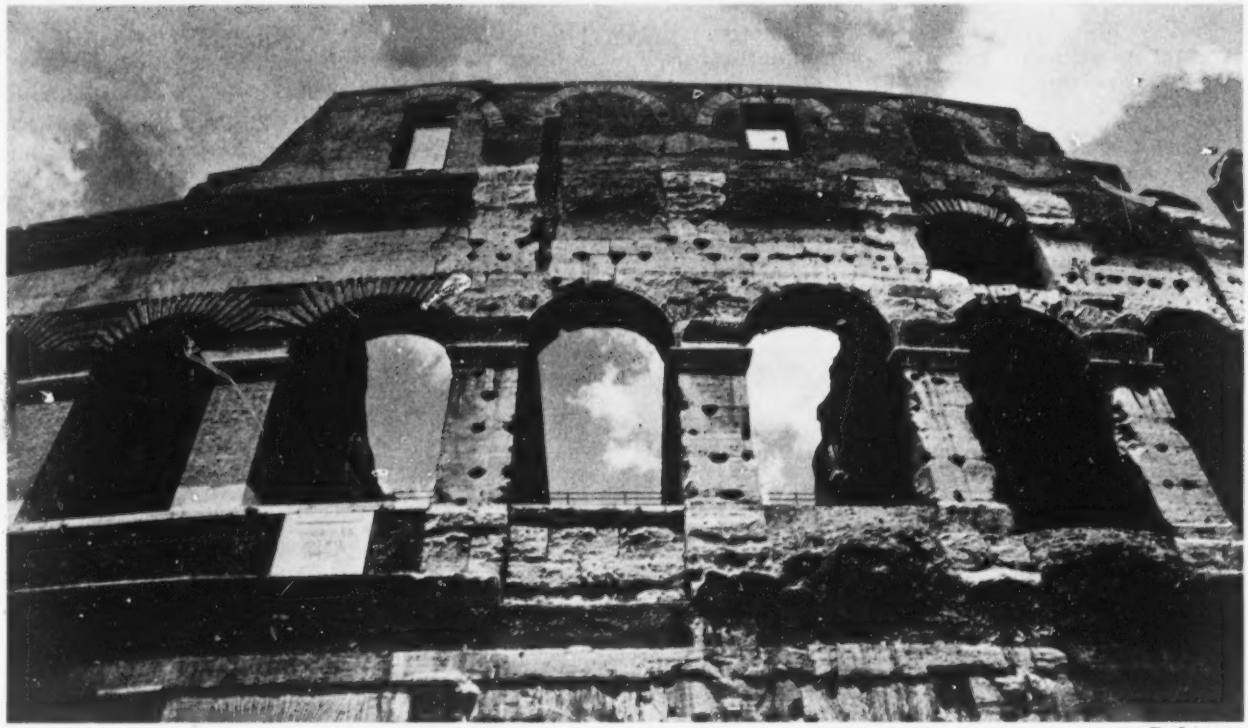
	Friday 5/7/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	12.58%	– .27	– 4.72
180-Day Bills†	12.03	– 1.43	– 4.92
Longest Bills†	13.20	– .42	– 2.90
Recent Issues:			
13⅞s 4/30/84	13.56	– .34	
14s 3/31/86	13.52	– .35	
13¾s 5/15/92 (When Issued)	13.47	NA	
14s 11/15/11	13.02	– .29	
Municipals:			
Bond Buyer–20 Bond Index* (5/6/82)	12.04%	+ .07	+ 1.14
Blue List Total ($ Million)	$ 928	+ $ 80	+ $207
30-Day Visible Supply ($ Million)	$2,278	+ $655	+ $350
Total	$3,206	+ $735	+ $557
Corporates:			
Moody's Aa Composite (5/6/82)	14.86%	+ .09	– .27
30-Day Visible Supply ($ Million) ‡	$1,610	+ $419	NA
Stocks:			
Dow-Jones Averages:			
Industrials	869.20	+ 20.84	– 107.20
Transportation	362.90	+ 9.77	– 65.50
Utilities	116.95	+ 3.46	– 11.39
65 Stocks	342.53	+ 8.92	– 35.18
Standard and Poor's 500 Stocks	119.47	+ 3.03	– 12.11
N.Y.S.E. Composite Index	68.76	+ 1.68	– 7.37
N.Y.S.E. Avg. Daily Vol. for Week (000's)	59,838	+ 6,380	+ 15,584

* 46% Taxable equivalent 22.30%.
‡ Series redefined: Historical data not available.
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/7/82	Week Ago
Overnight	14.00%	15.00%
1 month	14.75	15.00
3 month	14.25	14.88
6 month	14.19	14.88
1 year	14.13	14.63
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.40%	14.60%
Long Term (7 to 15 yrs.)	14.50	14.75

FOREIGN EXCHANGE SPOT RATES New York Opening (5/7/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02309	43.31
Canada	.8200	1.2195
Denmark	.1285	7.7850
France	.1672	5.9800
Germany	.4365	2.2910
Italy	.0007845	1274.70
Japan	.004305	232.28
Mexico	.02145	46.63
Netherlands	.3929	2.5455
Switzerland	.5286	1.8918
U.K.	1.8265	.5475



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